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STATE FOR WHA AND EEB
TREASURY FOR DAS BRIAN O'NEILL

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TAGS: [EFIN](#) [ECON](#) [EAID](#) [HO](#)
SUBJECT: AMBASSADOR ENCOURAGES HONDURAN CENTRAL BANK
PRESIDENT TO ENGAGE WITH IMF

REF: A. TEGUCIGALPA 1064
[1](#)B. TEGUCIGALPA 1009

Classified By: Ambassador Hugo Llorens for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: At a reception December 10, Ambassador told Central Bank President Edwin Araque that his public criticism of the IMF had been a mistake. Araque said that was probably true, but lamented the international community's lack of recent support, and said he is under tremendous political pressure from within the GOH. The Ambassador stressed the importance of Honduras reestablishing contact with the Fund and reiterated that exchange rate flexibility is an important issue for the IMF and the U.S. Government. Araque said he would speak to Finance Minister Rebeca Santos about accompanying her to Washington for talks with the IMF in mid-December, although he said holiday plans made this unlikely. Santos departed for Washington December 14. End Summary.

[1](#)2. (C) During a discussion at the Colombian Ambassador's reception December 10, the Ambassador told Araque that criticizing the IMF in the last week by calling it "obsolete" had been a mistake and suggested that Honduras needed to seriously consider getting its IMF program back on track. The Ambassador said a program would demonstrate a commitment to macroeconomic stability in a very unsettled global economic environment where investment flows are shrinking. The Ambassador said Honduras must show flexibility on the exchange rate and told Araque that the U.S. Government is in agreement with the IMF that this is an important issue. The Ambassador said that the Fund might be willing to show flexibility, but that Honduras needed to show flexibility on the exchange rate. Araque conceded his harsh words about the IMF had been imprudent, but said he was expressing the GOH frustration at not having received significant support from the international financial institutions during this difficult time. The Ambassador replied that the IMF support was most important in sending a positive signal to international and domestic investors that Honduras is serious about macroeconomic stability.

[1](#)3. (C) Finance Minister Rebeca Santos confirmed in early December of her talks with the IMF in Washington December 17. Ambassador encouraged Araque to contact Santos and possibly consider going along with Minister to Washington. Araque said he would speak to Santos but that plans to visit relatives in California the week of December 15 made his participation unlikely. (Note: Santos told the Ambassador and EconCounselor at an Embassy reception on December 13 that she would depart for Washington the following day for policy talks with the IMF. She confirmed Araque would not accompany her. Santos said that President Zelaya had approved these consultations and was interested in possibly seeking to negotiate a deal with the IMF in early 2009. However, she

admitted that it would not be easy to convince him to agree to exchange rate flexibility. End Note).

14. (C) In his further discussions with Araque, the Ambassador noted that Honduras might be in a weakened financial credit situation by mid-2009, and suggested that the early conclusion of a program might be advantageous. Araque responded that he was under tremendous political pressure from President Zelaya and lamented that the Central Bank lacked sufficient autonomy. Araque mentioned that in three separate meetings with President Zelaya - most recently more than a month ago - he has attempted to convince the President that the IMF agreement is critical. However, according to Araque, banking magnates Jorge Bueso and Jaime Rosenthal, who both strongly oppose devaluation, have successfully argued against the devaluation.

15. (C) Comment: The Central Bank has always been subject to the political will of the President's office in Honduras, but Edwin Araque has been particularly sensitive to political direction since his tenure began in early 2008. In private conversations such as this one, Araque appears to demonstrate he knows the right course of action, but openly admits he does not have the power to change the President's mind. On the other hand, Araque appears to be willing a tool of the President's political machinations. In fact, some within his own the Central Bank accuse him of attempting to suppress bad economic news and demoted one of his most respected research economists over disagreement over economic data.

16. (C) We don't expect the IMF to make any commitments to the GOH if it does not come to the table with concrete plans

to introduce greater flexibility in the exchange rate. However, in a live television discussion panel with EconCouns December 14, Araque ruled out any devaluation for the balance of Zelaya's presidency. Post will continue to engage with high-level officials to encourage the GOH to demonstrate prudent monetary and fiscal policies, as a means to demonstrate its commitment to macroeconomic stability, keep the doors to investment open, and stave off effects of the global economic downturn. End Comment.
LLORENS